

**DIVISION OF HEALTH PLANNING AND RESOURCE DEVELOPMENT
SEPTEMBER 2005**

**CON REVIEW HG-R-0605-026
TALLAHATCHIE GENERAL HOSPITAL & EXTENDED CARE FACILITY
HOSPITAL RENOVATION PROJECT
CAPITAL EXPENDITURE: \$2,185,757
LOCATION: CHARLESTON, TALLAHATCHIE COUNTY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Tallahatchie County, Mississippi, owns Tallahatchie General Hospital and Extended Care Facility (ECF), a non-profit acute-care and long-term care services organization located in Charleston, Mississippi. Tallahatchie General Hospital and Extended Care Facility is governed by a five-member Board of Trustees, appointed by the Tallahatchie Board of Supervisors.

Tallahatchie General Hospital & Extended Care Facility operates nine acute care/swing beds and 68 skilled nursing beds and is certified to participate in the Medicare-Medicaid programs. Tallahatchie General Hospital and Extended Care Facility continues to have Hill-Burton Program obligations that it fulfills annually.

The facility's bed capacity, occupancy rate, average length of stay (ALOS), and average daily census (ADC) for FY 2004 are as follows:

Tallahatchie General Hospital and Extended Care Facility FY 2005 Utilization FY 2004				
Facility	Bed Capacity	Occupancy Rate %	ALOS	ADC
Acute Care Hospital	9*	46.60	4.70*	4.20
Extended Care Facility	68	92.85	1,447	63.14

* Including swing beds

Source: Tallahatchie General Hospital and Extended Care Facility Hospital Renovation Certificate of Need Application

B. Project Description

Tallahatchie General Hospital and Extended Care Facility, a Hill-Burton era hospital, plans to renovate and/or refurbish its existing facility. This renovation will consist of approximately 48,600 square feet of space. Major renovation will be undertaken in the emergency room area, the kitchen, the day room in the existing nursing home wing, the acute care area waiting room, the employee lounge, the acute care clean linen area, the acute care dirty linen area, and the maintenance/storage area. Also, the ceiling in the boiler room will be replaced. The rest of the facility will be refurbished and renewed with fresh paint and repairs made in the ceiling and floor as needed. The renovation project includes

the replacement of the hospital's existing roof with a standing-seam metal roof and the addition of a fire protection sprinkler system throughout the facility.

II. TYPE OF REVIEW REQUIRED

Hospital renovation projects are reviewed in accordance with Section 41-7-191, subparagraphs (1)(j) Mississippi Code 1972 Annotated, as amended, and duly adopted rules procedures, plans, criteria, and standards of the Mississippi Department of Health.

In accordance with Section 41-7-197 (2) of the Mississippi Code 1972 Annotated, as amended, any person may request a hearing on this projected within 20 days of publication of the staff analysis. The opportunity to request a hearing expires on October 20, 2005.

III. CONFORMANCE WITH THE STATE HEALTH PLAN AND OTHER ADOPTED CRITERIA AND STANDARDS

A. State Health Plan (SHP)

The *FY 2005 Mississippi State Health Plan* contains policy statements, criteria, and standards which an applicant is required to meet before receiving CON authority for the renovation and/or refurbishing of an existing hospitals. This application is in compliance with the *FY 2005 Mississippi State Health Plan*.

SHP Criterion 1 – Need

Tallahatchie General's original plant was constructed in 1957 and very little renovation has occurred since. The addition of the extended care facility was completed in 1970, the roof was replaced in the early 1980's, and the emergency room was replaced in 1983. Currently, the facility consists of approximately 48,600 square feet and is in need of renovation, according to the applicant. No code violations were mentioned in the application.

SHP Criterion 2 – Transfer/Reallocation /Relocation

The proposed renovation project will not involve an expansion of the facility, a change in the scope of service, or bed capacity.

SHP Criterion 3 – Charity/Indigent Care

Tallahatchie General Hospital and Extended Care Facility is a Hill-Burton era hospital which is still under uncompensated care obligations. The facility meets or exceeds the indigent care obligations described in Chapter I of the *FY 2005 Mississippi State Health Plan*. The facility provided \$72,760, \$80,316, and \$83,656 in uncompensated care during FY 2002, FY 2003, and FY 2004, respectively, according to the applicant.

SHP Criterion 4 – Reasonable Cost

The stated cost of the proposed renovation project is \$44.97 per square foot which does not exceed by 15 percent or more any similar renovation project approved by the Department within the past 12-month period. The applicant states that the total equipment cost of \$150,000 does not exceed the median costs for equipment of similar quality by more than 15 percent.

SHP Criterion 5 – Floor Areas and Space Requirements

The applicant states that the reason that Tallahatchie General Hospital and Extended Care Facility is requesting authority to renovate the existing building is because of inefficient space utilization. The renovation of the existing building will provide a more efficacious health care delivery system. The application contained schematic drawings of the facility.

SHP Criterion 6 – Replacement Cost

The applicant considered the prospect of facility replacement but rejected the alternative because the existing facility is essentially adequate with only certain areas needing renovation at this time. The existing building has several years of useful service remaining and the capital expenditure needed to replace the facility would be out of line with any gained benefit. The proposed renovation is less than 85 percent of the cost of replacing the facility, according to the applicant.

B. General Review (GR) Criteria

Chapter 8 of the *Mississippi Certificate of Need Review Manual, (May 13, 2000, as amended)* addresses general criteria by which all CON applications are reviewed. The applicable criteria are discussed below:

GR Criterion 2 – Long Range Plan:

The applicant affirms that this project is compatible with the goal of providing quality, efficient health care to all residents of Tallahatchie General Hospital and Extended Care Facility's medical trade area.

GR Criterion 3 – Availability of Alternatives:

The applicant states that the alternative chosen is the most efficacious solution to Tallahatchie General Hospital and Extended Care Facility's physical plant problems. The applicant reported that the following alternatives were considered but rejected:

- a. Maintain status quo. The hospital could continue operating in the building in its present condition. This alternative was rejected because of the outdated and inefficient condition of the existing facility.
- b. Replace facility. The existing facility is essentially adequate with only certain areas needing renovation at this time; therefore, replacement of the facility would not be a sound financial decision.

GR Criterion 4 – Economic Viability:

The applicant projects a net income of \$25,996, \$259,444, and \$272,793 during the first, second, and third years, respectively. The applicant provided the following information:

- a. Proposed Charges. The scope for services will not change as a result of the renovation project.

- b. Projected Levels of Utilization. The projected level of utilization of the completed project is comparable to the facility's 2004 utilization:

Tallahatchie General Hospital and Extended Care Facility Occupancy Rates (percent)		
	2004	Third Year After Completion
Acute Care, Including Swing Beds	46.67	52.45
Extended Care Beds	92.85	94.90*

* Includes 30 additional nursing home beds brought on line.

The project also compares favorably with similar facilities operating in GHSA 2

Hospitals with 25 or Fewer Acute Care Beds General Hospital Service Area 2 Bed Capacity and Occupancy Rates (percent)		
	Bed Capacity	Occupancy Rate
Kilmichael Hospital	19	28.84
Tallahatchie General Hospital	9	46.67*

* Includes Swing beds.

Long-Term Care Facilities with 60-75 Nursing Home Beds Long-Term Care Planning District 1 Bed Capacity and Occupancy Rate (percent)		
	Bed Capacity	Occupancy Rate
Arnold Avenue Nursing Home	60	90.45
Autumn Leaves Nursing Home	60	83.45
Bolivar Health and Rehab. Center	75	87.19
Greenbough Nursing Center	66	88.43
Humphreys Community Care Center	60	90.57
Indianola Health & Rehab. Center	75	85.74
Landmark of DeSoto	60	97.60
Lexington Manor	60	97.50
Oak Grove Retirement Center	60	92.66
Quitman County Nursing Home	60	98.16
Sardis Community Nursing Home	60	94.14
Tunica Nursing Center	60	111.18
Tallahatchie Gen. Hosp. & ECF	68	92.85
Vaiden Comm. Living Center	60	90.46

- c. Financial Feasibility Study. The application contained an affirmative financial feasibility study conducted by Horne LLP CPAs & Business Advisors.

GR Criterion 5– Need:

Tallahatchie General Hospital and Extended Care Facility's original plant was constructed in 1957 and since that time very little renovation has occurred. The addition of the extended care facility was completed in 1970, the roof was replaced in the early 1980's, and the emergency room was replaced in 1983. Currently, the facility consists of approximately 48,600 square feet and is in great need of renovation, according to the applicant.

The Department approved this renovation project on January 12, 2004, without the necessity of a CON review based on estimates that the project would result in a capital expenditure of less than \$2,000,000. Since such approval, the estimated capital expenditure has increased to an amount in excess of \$2,000,000 primarily because of additional transaction fees estimated by the USDA.

- a. Special Population Needs. The applicant affirms that all residents of the area, including low income persons, racial and ethnic minorities, women, handicapped persons, other underserved groups, and the elderly, have access to the services provided at Tallahatchie General Hospital and Extended Care Facility and will have access to its services and the renovated facility.
- d. Adverse Effect on Existing Facilities. The applicant expects no adverse effect on any existing facility as a result of this project. Tallahatchie General Hospital and Extended Care Facility is the only existing hospital and the only existing nursing home in Tallahatchie County. This project does not involve a change in the scope of services.

GR Criterion 6 – Access to the Facility or Service:

According to the applicant, the hospital has continuing and ongoing Hill-Burton uncompensated care obligations, which it meets each year. Tallahatchie General Hospital and Extended Care Facility provides emergency services 24 hours per day to all patients who present themselves to the emergency department regardless of their ability to pay.

GR Criterion 7 – Information Requirement:

The applicant affirms that Tallahatchie General Hospital and Extended Care Facility shall record, maintain, and provide upon request by the Department, at a minimum, information regarding charity care, care to the medically indigent, and Medicaid populations.

GR Criterion 8 – Relationship to Existing Health Care System:

Since this project does not involve a change in the present scope of service, no adverse effects could be expected to the existing health care system. The application contained six letters of support from local community leaders and health care providers.

GR Criterion 9 – Availability of Resources:

This proposal involves renovation of an existing facility without a change in the scope of services and with no increase in the employee or physician population expected. The facility is adequately staffed at present, according to the applicant.

GR Criterion 16 – Quality of Care:

According to the applicant, Tallahatchie General Hospital and Extended Care Facility has a history of providing high quality medical care to the residents of its service area. It has in place a quality improvement program, the purpose of

which is to ensure the delivery of the highest quality care to its patients in the most efficacious manner with the resources available.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

Renovation Cost	\$ 1,155,465
Capital Improvements	405,140
Total Fixed Equipment Cost	150,000
Fees	136,848
Contingency Reserve	171,060
Capitalized Interest	105,000
Other (Bond Issuance Fees)	62,244
TOTAL PROPOSED CAPITAL EXPENDITURE	\$ 2,185,757

The applicant proposes to renovate approximately 48,600 square feet of Tallahatchie General Hospital and Extended Care Facility. The estimated renovation cost per/square foot is \$44.97.

B. Method of Financing

Tallahatchie General Hospital and Extended Care Facility intends to finance the proposed project through a loan from the USDA, Rural Development Program and a USDA Community Facilities grant.

C. Effect on Operating Cost

The applicant projects the following operating results from operation for the first three years following completion of the project:

Tallahatchie General Hospital & Extended Care Facility Three-Year Projected Operating Statement			
Revenue	Year 1	Year 2	Year 3
Gross Patient Revenue	\$10,788,574	\$11,821,966	\$12,480,324
Less Contractual Adjustments	(1,161,376)	(1,281,703)	(1,367,533)
Net Patient Service Revenue	9,627,198	10,540,263	11,112,791
Other Revenue	17,503	18,028	18,570
Net Operating Revenue	\$ 9,644,701	\$10,558,291	\$11,131,361
Expenses			
Salaries and Benefits	\$ 5,230,918	\$ 5,778,197	\$ 6,200,451
Supplies and Equipment	4,043,358	4,184,875	4,331,347
Depreciation	384,487	386,630	388,773
Total Operating Expense	\$ 9,658,763	\$ 10,349,702	\$ 10,920,571
Income (Loss) From Operations	(14,062)	208,589	210,790
Non-Operating Revenue (Losses)			
Interest Income	2,042	1,104	2,167
Interest Expense	(247,284)	(245,108)	(242,839)
Non-Capital Grants and Contrib.	285,300	293,859	302,675
Total Non-Operating Revenue	\$ 40,058	\$ 49,855	\$ 62,003
Net Income (Loss)	\$ 25,996	\$ 258,444	\$ 272,793

Assumptions			
Acute (Including Swing Beds)			
Average Daily Census	4.72	4.82	4.95
Average Length of Stay	4.74	4.76	4.76
Number of Patient Days	1,723	1,765	1,805
Extended Care			
Average Daily Census	78	87.8	93
Average Length of Stay	1,423	1,460	1,476
Number of Patient Days	28,470	32,120	33,945

D. Cost to Third Party Payors

The cost of the project to third-party payors shown below is based on net patient service revenue:

Tallahatchie General Hospital & Extended Care Facility Cost to Third-Party Payors (First Year Operation)		
Patient Mix	Utilization Rate Percent	Cost
Medicare	91.53	\$ 8,811,774
Medicaid	4.87	468,845
Other Payors	3.60	346,579
Total	100.00	\$ 9,627,198

V. RECOMMENDATION OF OTHER AFFECTED AGENCIES

The Division of Medicaid estimates the increased annual cost to the Medicaid program to be \$4,150 in inpatient hospital services and \$16,755 in extended care services. Any portion which may relate to outpatient services will be paid as outlined in the State Plan.

VI. CONCLUSION AND RECOMMENDATION

This project is in substantial compliance with the criteria and standards for renovation of a hospital as contained in the *FY 2005 Mississippi State Health Plan*, the *Mississippi Certificate of Need Review Manual*, (May 13, 2000, as amended); and adopted rules, procedures, and plans of the Mississippi Department of Health.

The Division of Health Planning and Resource Development recommends approval of this application submitted on behalf of Tallahatchie General Hospital and Extended Care Facility for renovation of the existing facility.